

**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

Northern Illinois Gas Company	)	
d/b/a Nicor Gas Company	)	
	)	Docket No. 08-0363
Proposed general increase in rates, and	)	
revisions to other terms and conditions	)	
of service	)	

Surrebuttal Testimony of

**KRISTINE J. NICHOLS**

Vice President Engineering  
Nicor Gas Company

November 5, 2008

OFFICIAL FILE  
DOCKET NO. 08-0363  
Nicor Gas Exhibit No. 47.0  
Date 11/17/08 Reporter TC

1    **I.       INTRODUCTION**

2    **Q.       Please state your name and business address.**

3    A.       Kristine J. Nichols, Nicor Gas Company ("Nicor Gas"), 1844 Ferry Road, Naperville,  
4           Illinois 60563.

5    **Q.       Are you the same Kristine J. Nichols who submitted direct and rebuttal testimony**  
6           **on behalf of Nicor Gas in this Docket?**

7    A.       Yes.

8    **II.      PURPOSE AND SUMMARY**

9    **Q.       What is the purpose of your surrebuttal testimony?**

10   A.       The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of  
11           Messrs. David Brightwell on behalf of the Illinois Commerce Commission  
12           ("Commission") Staff ("Staff") (Staff Ex. 25.0) and Charles Kubert on behalf of  
13           Environmental Law Policy Center ("ELPC") (ELPC Ex. 2.0) regarding various aspects of  
14           the Energy Efficiency Plan ("EEP" or "Plan") as proposed by Nicor Gas.

15   **Q.       Please summarize your conclusions.**

16   A.       I conclude that Nicor Gas continues to support the EEP design originally set forth in my  
17           direct testimony (Nicor Gas Ex. 13.0), and specifically the following:

- 18       •       The Commission should approve Nicor Gas' EEP as proposed. The proposed  
19           EEP envisions the use of energy efficiency programs designed specifically for the  
20           experience of Nicor Gas customers. This would provide value beyond the cost of  
21           the Plan and beyond the natural conservation occurring within the Nicor Gas  
22           service territory.

- 23 • The proposed EEP management structure enjoys the support of the only  
24 intervenor in this proceeding with energy efficiency experience within Illinois and  
25 across other states.
- 26 • In the event the Commission determines that the Advisory Board spent funds  
27 imprudently, it would be appropriate for the Commission to refund ratepayers any  
28 program funds that remain unspent, end individual programs and/or terminate the  
29 EEP entirely.
- 30 • The Advisory Board's roles and responsibilities are outlined within the Plan and  
31 include the design and approval of general Plan goals and performance criteria.  
32 Thus, it is premature at this time to establish therm reduction goals prior to a  
33 study of the market potential and pre-existing conservation efforts.
- 34 • Nicor Gas agrees with ELPC that the Company's EEP shall remain independent  
35 of any other utilities' governance board for purposes of this proceeding.

### 36 **III. RESPONSE TO STAFF WITNESS DAVID BRIGHTWELL**

37 **Q. Why does Nicor Gas propose to offer energy efficiency programs to its customers**  
38 **when it is not mandated to do so?**

39 A. Nicor Gas is one of the low cost natural gas providers in the country, and continues to  
40 work hard to maintain that claim. Yet, due to volatile natural gas market prices, our  
41 customers are experiencing unprecedented increases in their natural gas bills. Energy  
42 efficiency programs enable customers to make better choices about the energy products  
43 they use and the energy they consume. Energy efficiency programs allow customers to  
44 act on their own behalf to reduce their natural gas use. Natural gas customers in The  
45 Peoples Gas Light & Coke Company ("Peoples Gas") and the Ameren Illinois Utilities  
46 ("Ameren") gas service territories are poised to benefit from energy efficiency programs.  
47 Nicor Gas believes it is fair and reasonable to be able to offer those benefits to its  
48 customers as well.

49 Q. Mr. Brightwell acknowledges there has been a declining per customer usage in the  
50 Nicor Gas territory without energy efficiency programs. (Brightwell Reb., Staff  
51 Ex. 25.0, 9:183-84). Should the Company simply let rate payers address energy  
52 costs through conservation measures on their own?

53 A. No. Conservation and energy efficiency are not the same thing. The demand decline  
54 experienced by the natural gas industry, as noted by Mr. Brightwell, is a product of both  
55 energy efficiency and conservation—the careful utilization of energy and the act of  
56 conserving. In other words, the conservation component speaks to a temporary behavior.  
57 For example, an act such as turning down the thermostat in the winter time is not “energy  
58 efficiency.” Energy efficiency is a permanent change in the actual consumption of  
59 natural gas, such as installing a high-efficiency furnace or weatherizing homes to  
60 eliminate drafts. Energy efficiency has long-term, positive impacts on the customer’s  
61 natural gas bill *without a decrease in the customer’s comfort-level*.

62 In this regard, Illinois lags behind its neighboring states in energy efficiency, even  
63 if we have similar conservation behaviors. In his rebuttal testimony, Mr. Kubert  
64 describes the experiences he has witnessed in other states and concludes that energy  
65 efficiency plans in other states deliver more energy savings than would otherwise occur.  
66 (Kubert Reb., ELPC Ex. 2.0, 3:56-62). Further, an example given by Mr. Kubert in his  
67 direct testimony shows that Illinois natural gas customers purchase energy efficient  
68 furnaces less often than our neighboring states despite the value they bring. (Kubert Dir.,  
69 ELPC Ex. 1, 4:78-80). Nicor Gas customers need education and incentives to help them  
70 acquire and utilize the long-term energy efficient measures that are or could be available  
71 to them. Nicor Gas’ EEP is designed to accomplish that goal.

72 **Q. Does Mr. Brightwell make any recommendations in the event that the Commission**  
73 **approves an energy efficiency plan for Nicor Gas?**

74 A. Yes. Mr. Brightwell recommends the Conservation Stabilization Adjustment ("CSA")  
75 component be removed from the Company's rider and that the Company's proposed  
76 management structure be overhauled. (Brightwell Reb., Staff Ex. 25.0, 9:190-92).

77 **Q. What does the CSA do?**

78 A. The CSA allows the Company to recover revenues that are lost due to therm reductions  
79 caused by those energy efficiency programs approved and implemented by the Advisory  
80 Board.

81 **Q. Why does he recommend the CSA be removed from the rider?**

82 A. Mr. Brightwell claims that those who have a vested interest in the success of the EEP will  
83 distort the reduction levels. (*Id.*, 9:194-10:196).

84 **Q. How does Nicor Gas respond?**

85 A. There are two ways that the proposed management structure of the EEP would ensure  
86 that the stated reduction levels would not be distorted: (1) the manner in which per-  
87 participant energy savings would be calculated, and (2) the structure of the Advisory  
88 Board that would approve those savings.

89 Nicor Gas envisions a systematic basis for determining per-customer expected  
90 energy savings. For example, based upon the laboratory-verified energy savings of a  
91 higher efficiency furnace over a standard furnace. The energy efficiency savings  
92 attributed to the program in any given year would be the calculation of the expected

energy savings per customer multiplied by the actual number of customers that participated in that program.

Of course, this calculation would need approval by the Advisory Board, which is specifically designed such that no single member can determine how savings are accrued. Nicor Gas witness Gerald O'Connor further explains in his surrebuttal testimony that the proposed structure of the diverse Advisory Board would ensure that no member, including Nicor Gas, could distort the reduction levels. (O'Connor Sur., Nicor Gas Ex. 46.0). By placing program control in the hands of stakeholders, rather than the Company, a natural balance of interests is created. Because the stakeholders in the EEP would not have a vested interest in the Company's revenue recovery, they would have no reason to allow the stated impact of the Advisory Board's approved programs to be inflated.

**Q. On a going forward basis, how will the accuracy of the energy efficiency savings assigned to specific programs be tested?**

A. The accuracy of the energy efficiency savings assigned to specific programs and approved by the Advisory Board will be tested annually by comparing two calculations:

- (1) The system-wide comparison of actual- versus forecasted-throughput, and
- (2) The per-program savings approved by the Advisory Board.

The per-program savings would be subject to scrutiny any time that the sum of the per-program savings is greater than the additional demand decline beyond forecast. This scenario would require a correction to the calculations before the Advisory Board could approve any prospective annual savings attributed to the programs. The difference

between actual and forecasted demand can be approved by the Advisory Board as the annual savings attributed to the EEP for purposes of evaluating its overall effectiveness and determining the Company's lost margin as a result of the EEP.

**Q. Mr. Brightwell also recommends that Nicor Gas replace the management structure it proposed in its voluntary EEP filing. (Brightwell Reb., Staff Ex. 25.0, 10:197-99). Please explain your understanding of his proposal.**

A. Mr. Brightwell states that his management structure proposal would require Nicor Gas to use a "similar" structure to ComEd and Ameren. Unfortunately, Mr. Brightwell never fully explains what he means. It is my understanding that the management structure of the energy efficiency programs implemented by ComEd and Ameren was legislated, and not designed on a voluntary basis. Mr. Brightwell's proposal also is problematic because it would shift accountability from stakeholders *and* Nicor Gas to Nicor Gas alone. (*Id.*, 10:199-202).

**Q. What specific shift in responsibility does Nicor Gas think Mr. Brightwell is proposing?**

A. It appears that Mr. Brightwell is proposing that the EEP require the Company to decide which programs to implement and be financially responsible for those programs that do not deliver projected results. Ultimately, it appears that Mr. Brightwell's structure would undermine the Advisory Board's authority and make it no more than a non-binding focus group.

**Q. Why is eliminating other stakeholders from having a substantive role in the decision-making process problematic?**

137 A. The Company's proposed management structure considers the economic efficiencies and  
138 the energy efficiency expertise of a diverse Advisory Board, as opposed to developing  
139 internal expertise at additional cost to ratepayers. Incremental administrative costs would  
140 increase if Nicor Gas were required to build expertise in-house beyond what the  
141 Company believes is necessary to fulfill Nicor Gas' duties as Fiscal Agent. Further, an  
142 Advisory Board with no decision-making authority would lack interest in making  
143 effective use of ratepayers' funds.

144 **Q. Mr. Brightwell concludes that imposing a management structure like those**  
145 **legislatively mandated "may also streamline the implementation of programs**  
146 **because placing the responsibility of the program on a solo entity rather than a**  
147 **committee usually provides for a more efficient process." (Brightwell Reb., Staff**  
148 **Ex. 25.0, 10:203-05). Does Mr. Brightwell provide any analysis or study to support**  
149 **his conclusion?**

150 A. No. Nicor Gas' proposed structure takes into account both efficiency *and* effectiveness.  
151 By utilizing experts to approve energy efficiency programs best suited to Nicor Gas  
152 customers, the Company will be gaining efficient access to industry leaders and program  
153 implementers, without the lengthy ramp-up inherent in developing internal expertise and  
154 professional relationships. Also, by allowing the stakeholders to have meaningful  
155 participation in the EEP, Nicor Gas customers will benefit from their expertise and  
156 insight far more directly and efficiently.

157 **Q. If Rider EEP is approved, what activities relating to program offerings does Nicor**  
158 **Gas envision implementing for the first heating season, 2009-2010?**



159 A. Nicor Gas expects the Advisory Board to focus on two primary activities beyond its  
160 initial launching and organization. First, it would sponsor a market study to determine  
161 the current state of energy efficiency programs and gaps in those program areas within  
162 Nicor Gas' service territory. This study will be essential in designing further offerings  
163 for the second through fourth years of the pilot EEP. Second, and equally as important,  
164 the Advisory Board would utilize its expertise and relationships with existing energy  
165 efficiency products and services to provide "quick hits"—program offerings that the  
166 Advisory Board feels would be effective measures for the first year of the Plan without  
167 the benefit of the market study. Quick hits may include educational materials, website  
168 energy tips, bill stuffers, water heater wraps, or weatherization audits.

169 **IV. RESPONSE TO ELPC WITNESS CHARLES KUBERT**

170 **Q. In general, does the Company support the rebuttal testimony of ELPC witness Mr.**  
171 **Kubert?**

172 A. Yes. Mr. Kubert continues to present compelling arguments supporting the use of  
173 ratepayer funds to promote energy efficiency. He also presents persuasive arguments  
174 demonstrating that Mr. Brightwell's concern over purported undue influence by Nicor  
175 Gas on the proposed Advisory Board is misplaced.

176 **Q. Mr. Kubert states that "[i]f the Commission determines that funds were**  
177 **imprudently spent, it could decide to return funds to ratepayers or terminate the**  
178 **program;...." (Kubert Reb., ELPC Ex. 2.0, 6:121-22). Does the Company believe a**  
179 **refund of unused funds is an appropriate remedy?**

180 A. Yes. Should the Commission conclude that energy efficiency funds were imprudently  
181 spent by the independent Advisory Board, ordering a refund of unused funds is an  
182 appropriate remedy. Terminating the EEP is also an appropriate remedy. However, it  
183 should be quite clear that any refunds should be limited to those funds not yet expended,  
184 less any amounts for outstanding obligations.

185 **Q. Mr. Kubert discusses his position relative to energy savings goals. (Kubert Reb.,**  
186 **ELPC Ex. 2.0, 6:132-7:140). How does Nicor Gas respond?**

187 A. Nicor Gas has no objection to establishing targeted savings goals at the appropriate time,  
188 and fully expects the Advisory Board to determine when that time is and what those  
189 targets should be. At a minimum, it is premature to establish a goal until a market study  
190 is completed. I explained the need for a market study in my direct testimony (Nichols  
191 Dir., Nicor Gas Ex. 13.0, 8:166-69) and in my rebuttal testimony (Nichols Reb., Nicor  
192 Gas Ex. 28.0, 7:155-57). Further, it is expected that the Advisory Board would consider  
193 anticipated savings for each program it approves.

194 **Q. What is the Company's understanding of Mr. Kubert's board consolidation**  
195 **position? (Kubert Reb., ELPC Ex. 2.0, 7:145-52).**

196 A. While Mr. Kubert believes consolidation of Nicor Gas' proposed Advisory Board with  
197 People's Governance Board (as approved in Consol. Docket Nos. 07-0241/07-0242 -  
198 "Peoples Gas Order") may be in the best interest of customers, he acknowledges such  
199 consolidation is not required in this proceeding. The Company agrees that consolidation  
200 is not required in this proceeding.

201   V.    **CONCLUSION**

202   Q.    **Does this conclude your surrebuttal testimony?**

203   A.    Yes.

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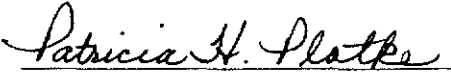
AFFIDAVIT

I, Kristine J. Nichols, under oath, hereby swear to the following:

1. I am the Vice President of Engineering for Nicor Gas Company;
2. I prepared prefiled Surrebuttal Testimony on behalf of Northern Illinois Gas Company, d/b/a Nicor Gas Company, submitted as Nicor Gas Ex. 47.0 and filed on November 5, 2008;
3. I have personal knowledge of all the facts in my Surrebuttal Testimony, and the answers set forth therein are true and correct to the best of my knowledge; and
4. If asked those same questions today, my answers would be the same.

  
Kristine J. Nichols

Subscribed and sworn to before me  
this 4 day of November, 2008.

  
Notary Public

